

Medical Insurance “Buy-outs” (“Payments In Lieu Of”) No Longer Reportable as Earnable Compensation

Many employers provide members who waive employer-provided health insurance coverage with additional compensation, which may be referred to as an “insurance buy-out” or a “payment in lieu of.” The additional compensation is usually a flat dollar amount, which is typically a fraction of the total health insurance premium the employer would have paid on behalf of the employee. For example, the annual employer health insurance premium may be \$10,000 per employee. If an employee waives coverage and provides proof of coverage through another plan, the employee may be compensated with an additional \$100 per month “payment in lieu of” taking the current employer’s health insurance coverage.

In the past, these payments were included in the definition of “earnable compensation,” requiring that employers remit both member and employer contributions for such payments to NHRS. Legislative changes to the definition of “earnable compensation” no longer include “payments in lieu of” health insurance coverage as part of earnable compensation. Therefore, contributions on those amounts are no longer allowable.

Employees Who Leave NHRS-Covered Employment for Active Military Duty

Members Eligible for Service Credit

Members who leave NHRS-covered employment for active military duty and do not terminate employment will be eligible to receive service credit for the period of their active military duty, provided they return to NHRS-covered employment within one year of when their military duty ceases. Members may receive up to three years of service credit at no cost. If the period of active military duty exceeds three years, members may purchase service credit for years in excess of three. Members must provide NHRS with a copy of their DD214 when they return to NHRS-covered employment.

Members who leave NHRS-covered employment and elect to withdraw their NHRS accumulated contributions must *terminate* their employment and file the appropriate forms with NHRS. Members are encouraged to contact NHRS prior to terminating employment, to determine what, if any, benefits may be forfeited.

Employers are encouraged to have their employees who return from military duty contact NHRS.

Military Differential Pay Must Be Reported

Employers who provide military differential pay to employees who are on active military duty *must* report such pay to NHRS. Military differential pay is deemed earnable compensation, and employers are required to remit both member and employer contributions for such pay to NHRS.

NHRS Employer Field Audit Process

NHRS conducts random audits of participating employers to ensure employer and member compliance with NHRS administrative rules and statutes. Audits are formulated to concentrate on those areas that pose the most risk and provide the greatest opportunity for improvements in employer processing and NHRS reporting.

Audits are typically performed in four phases:

Survey and research: An NHRS field representative initiates the audit by contacting the employer and requesting various reports and information. These documents may include: a list of full and part time employees, annual reports, contracts, collective bargaining agreements, job descriptions, and personnel rules. In addition, employers may be asked to complete questionnaires regarding Group I (Employee and Teacher) and Group II (Police and Fire) members. With the information provided by the employer, the field representative will perform an initial reconciliation to NHRS records. During this time, the field representative will also schedule a site visit to perform fieldwork with the employer.

Fieldwork: During the site visit, the field representative reviews the employer's payroll records to reconcile earnable compensation, extra special/duty pay, overtime, the number of hours worked by the member, and any stipends that may have been paid. Payroll for part-time employees is reviewed to ensure that they are working only the appropriate hours. Contracts and agreements between employees and the political subdivision are examined to verify employee job classifications. The field representative will also share with the employer 'best practices' observed at other offices.

Reporting: After the site visit, follow up questions and audit work may be coordinated with the employer. Once all necessary information has been received and reviewed by NHRS, a draft written audit report summarizing observations will be prepared for discussion and review with the employer. After agreement is reached on the observations, a final report containing audit results and employer responses will be prepared and approved by the NHRS Director of Employer Services. The final report will be provided to the employer for their records.

Follow-up: The NHRS Field Representative will periodically review with the employer the status of progress in completing the agreed-upon improvements.

Visit the NHRS website at
<http://www.nhrs.org/News/LegUpdates.aspx>
to view the most recent NHRS legislative updates!

Retirement System Member Education Sessions

NHRS is pleased to offer retirement education sessions to teachers, employees, firefighters, and police officers throughout the state who are NHRS members, not yet retired. During these general information programs, members of all ages and in various stages of their career are provided with information about NHRS benefits, including an overview of NHRS as a defined benefit plan; service, early, disability, and vested deferred retirement; pre-retirement and post-retirement death benefits; and other important aspects of NHRS retirement benefits. Please note that personalized account information, pension estimates, and information about retiree health insurance are not offered during these sessions.

To register for an education session, please visit the NHRS website at www.nhrs.org/Events/Member.aspx.

Updated Member Enrollment Form Required for Employees Who Return to Service

Members who are in non-contributing status for more than 180 days, cease to be active members pursuant to RSA 100-A:11. Upon a return to contributing status, an exception will occur in the employer's first reporting of resumed wages and contributions for the returning employee. As a result, employers must provide NHRS with a newly completed member enrollment form which will clear the reporting exception, reactivate the employee's membership, and update the employee's member record.

NHRS Law Book

As a courtesy to its participating employers, NHRS is providing each employer with a copy of the 2009 NHRS statutory provisions book ("law book"), which has been included with this newsletter. Employers are encouraged to retain a copy of the law book as a reference. Town administrators, finance directors, and personnel managers often find the law book to be a helpful reference.

NHRS is governed by statute (NH RSA 100-A) and administrative rules. Both the statute and rules may be accessed from the NHRS website at:

<http://www.nhrs.org/PlanAdministration/Details.aspx>.

New Employer Reporting Voucher

Employers must use a new Employer Reporting Voucher, which is accessible from the NHRS website at http://www.nhrs.org/Employers/documents/VoucherSectionCB2010_04_22.pdf. Employers who do not have internet access must contact an Employer Services representative by calling 603-410-3673.

Deductions from Pensions for Health Insurance Premiums Cannot Be Pre-Tax

Retirees who participate in the health insurance plan of their former NHRS employer may elect to have insurance premiums deducted from their monthly pension and forwarded to their former employer.

Pursuant to Internal Revenue Code (IRC) regulations, it is *not permissible* for retiree health insurance premiums or contributions to a health savings account to be deducted from a retiree's pension on a pre-tax basis. Such deductions may be paid on a pre-tax basis *only* through an employer-sponsored cafeteria plan under Internal Revenue Code (IRC) Section 125.

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Under IRC Section 125(d)(1), a cafeteria plan is a written plan of which *all participants are employees*. A person who is retired and in receipt of a pension from NHRS is neither an employee of NHRS nor an employee of the employer from whom he or she retired. A plan which covers as few as one retiree would be disqualified as a cafeteria plan.

Retiree health insurance premiums cannot be deducted from a retiree's or beneficiary's pension on a pre-tax basis. However, those premiums may be deductible as a medical expense for federal income tax purposes for retirees who itemize deductions. Employers and/or retirees with further questions about potential tax deductions are encouraged to contact a tax consultant or the Internal Revenue Service.

New Hampshire Retirement System Keeps Its Promises

A Message from Executive Director Dick Ingram

The New Hampshire Retirement System (NHRS, “the System”) is a promise keeper. Our role is that of a fiduciary – administering the retirement benefit commitments made by our participating employers to their employees who are our members – according to the plan provisions as enacted by the State Legislature.

NHRS, like public pension funds throughout the nation, is experiencing challenges during these volatile economic times. The System is not immune to difficult financial markets and public scrutiny about increased costs to taxpayers. NHRS leadership acknowledges the reported concerns about the rise in employer contribution rates and the System’s ability to pay future benefits. We affirm that a combination of strong governance, sound fiduciary practices, and appropriate public policy will ensure the continuing viability of the System. That will require collaboration between NHRS and its stakeholders including its members and participating employers, the state and local policy-makers, and taxpayers.

NHRS is financially supported by member contributions, employer contributions, and net investment returns. The NHRS Board of Trustees must ensure that actuarially sound contributions are established, that employer and member contributions are prudently invested for the exclusive benefit of active and retired members and their beneficiaries, and that NHRS fairly administers the provisions of the plan.

Many important improvements have been implemented in recent years. Better governance including the development of board committees, implementation of sound and generally accepted accounting and actuarial practices, and emphasis on transparency in governance are some of the steps that have been taken to ensure prudent management of NHRS trust fund assets. In recent years NHRS has adopted more mainstream, standard practices, including smoothing investment gains and losses over a five year period in order to dampen the effect of market volatility on the employer contribution rates. Legislation was enacted to require NHRS to use the entry-age normal actuarial cost method and a 30-year amortization of the unfunded actuarial accrued liability. The employer contribution rates recommended for Fiscal Years 2012 and 2013 were developed using these mainstream practices.

Prior to the changes, the actuarial methodology and accounting practices used by the System pursuant to previous law and policies led to overstating the funding status of the trust, developing artificially low employer contribution rates, and generating a weak funding status as we headed into the current economic downturn. NHRS and its stakeholders are experiencing the impact of those decisions, and we cannot allow history to repeat itself.

The NHRS Board of Trustees continues to work closely with its actuary and investment consultant to ensure that trust fund assets are managed properly in order to meet benefit obligations. For example, NHRS is conducting an asset/liability modeling study and later in 2010, will conduct a five-year experience study. The asset/liability modeling is designed to determine the appropriate allocation of assets among investment classes to meet the long-term financial obligations of NHRS. The actuarial assumptions will be reviewed to make sure they are reasonable and appropriate. Changes, if any, to the asset allocation targets and ranges will be thoroughly reviewed by the System’s Independent Investment Committee before any recommendation is made to the NHRS Board of Trustees.

Prudent investment strategies based on long-term discipline and adequate contributions will advance the long-term viability of the System. It is important to note that good investment performance is not the only factor that impacts funding levels and System costs. Those numbers are also affected by legislative policy and employers’ negotiations with their employees that determine compensation, benefits, provisions regarding work after retirement, and other factors. Those decisions have an impact on the System’s liabilities, which, in turn, affect employers’ rates.

NHRS should be recognized as one of New Hampshire’s largest “home grown” financial institutions, and our annual “payroll” of benefits paid to retirees is also one of the state’s largest. As such, the practices that the System implements must reflect the importance and impact it has on the state’s economy and its citizens. That is the commitment we intend to keep.

The New Hampshire Retirement System (NHRS) is governed by New Hampshire RSA 100-A, rules, regulations, and Federal laws including the Internal Revenue Code. NHRS also implements policies adopted by the Board of Trustees. These laws, rules, regulations, and policies are subject to change. Even though the goal of NHRS is to provide information that is current, correct, and complete, NHRS does not make any representation or warranty as to the current applicability, accuracy, or completeness of any information provided. The information herein is intended to provide general information only, and should not be construed as a legal opinion or as legal advice. Members are encouraged to address specific questions, regarding NHRS, with an NHRS representative. In the event of any conflict between the information herein and the laws, rules, and regulations which govern NHRS, the laws, rules, and regulations shall prevail.